

Office of the Legislative Auditor

State of Montana



Report to the Legislature

October 1991

Financial Audit

Fiscal Year Ended June 30, 1991

Guaranteed Student Loan Program

Commissioner of Higher Education

We issued an unqualified opinion on the financial statements of the program and our report contains no recommendations.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Room 135, State Capitol
Helena, MT 59620

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STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

October 1991

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the audit of the Commissioner of Higher Education's Guaranteed Student Loan Program (GSLP) for the fiscal year ended June 30, 1991.


The Montana Guaranteed Student Loan Program was authorized by the Montana Legislature in 1979 and established July 1, 1980. The GSLP allows eligible students to receive loans from lending institutions to pay for post-secondary education. The federal government guarantees the loans made by lending institutions and makes administrative cost reimbursements to the GSLP.

The Guaranteed Student Loan Program initially contracted with United Student Aid Funds, Inc. to process and service loans. In 1988, Montana began assuming the administrative duties associated with the loan guarantee process. During 1990 the GSLP assumed complete administration but continues to contract with United Student Aid Funds, Inc. for computer support services.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", with a long, sweeping flourish extending to the right.
Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

Financial Audit

For the Fiscal Year Ended June 30, 1991

Guaranteed Student Loan Program

Commissioner of Higher Education

Members of the audit staff involved in this audit were Pearl M. Allen and Charles Nemec.

Table of Contents

Independent Auditor's Report & Program Financial Statements	Independent Auditor's Report	1
	Balance Sheet, Special Revenue Fund June 30, 1991	2
	Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund for the Fiscal Year Ending June 30, 1991	3
	Notes to the Financial Statements	4
Program Response	Guaranteed Student Loan Program	9

Independent Auditor's Report & Program Financial Statements

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Balance Sheet of the Guaranteed Student Loan Program - Special Revenue Fund of the state of Montana as of June 30, 1991, and the related Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the fiscal year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Guaranteed Student Loan Program - Special Revenue Fund and are not intended to present fairly the financial position and results of operations of the state of Montana in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guaranteed Student Loan Program of the state of Montana as of June 30, 1991, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 24, 1991

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 1991

ASSETS

Cash in Treasury	\$ 433,598
Accounts Receivable	21,160
Prepaid Expenses	12,249
Due From Federal Government (Note 4)	1,363,521
Investments (Note 3)	<u>3,640,300</u>
TOTAL ASSETS	<u>\$5,470,828</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 19,194
Due to Banks (Note 10)	95,982
Due to Federal Government (Note 7)	347,205
Deferred Revenue (Note 9)	<u>3,927,174</u>
Total Liabilities	<u>4,389,555</u>

Fund Balances:

Restricted (Note 5)	76,938
Unrestricted	<u>1,004,335</u>
Total Fund Balance	<u>1,081,273</u>

TOTAL LIABILITIES AND FUND BALANCES	<u>\$5,470,828</u>
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The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
 GUARANTEED STUDENT LOAN PROGRAM
 SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 1991

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUE			
Guarantee Fee Income (Note 9)	\$ 973,842	\$ 946,961	\$(26,881)
Administrative Cost Allow. (Note 6)	523,184	548,855	25,671
Investment Earnings	244,127	229,383	(14,744)
Collection Cost Retained	50,000	150,430	100,430
Miscellaneous Revenue	50,000	25,917	(24,083)
TOTAL REVENUES	<u>1,841,153</u>	<u>1,901,546</u>	<u>60,393</u>
EXPENDITURES			
Administrative Costs	1,555,704	1,507,824	47,880
Equipment and Intangible Assets	135,087	68,514	66,573
TOTAL EXPENDITURES	<u>1,690,791</u>	<u>1,576,338</u>	<u>114,453</u>
Excess Revenues Over/ (Under) Expenditures	150,362	325,208	174,846
Prior Year Adjustment (Note 8)	0	1,838	1,838
Fund Balance - 07/01/90	<u>754,227</u>	<u>754,227</u>	<u>0</u>
Fund Balance - 06/30/91	<u>\$ 904,589</u>	<u>\$1,081,273</u>	<u>\$176,684</u>

The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The State of Montana Guaranteed Student Loan (GSL) Program is located in the Office of the Commissioner of Higher Education. As a Special Revenue Fund, it accounts for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. The program was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions within the State of Montana.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the normal time of receipt or if received for a particular activity and the expense for that activity has not been incurred prior to fiscal year-end.

2. EMPLOYEES' RETIREMENT SYSTEM

The Guaranteed Student Loan Program employees are covered by the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), or the University System Optional Retirement Plan, TIAA-CREF. Professional employees with contracts under the authority of the Board of Regents may choose either the Montana Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP), which is available through the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). The classified staff is provided a retirement program through the Montana Public Employees' Retirement System (PERS).

Defined Benefit Plans

Public Employees' Retirement System (PERS)

Established in 1945 and governed by Title 19, chapter 3, MCA, Public Employees' Retirement System participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service, or 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service.

Effective January 1, 1989 monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years. Under PERS, the state contributed 6.417 percent of an employee's gross wages. The employee contributed 6.300 percent of his gross wages.

Teachers' Retirement System (TRS)

The Teachers' Retirement System is a mandatory system established in 1937 and governed by Title 19, chapter 4, MCA. Teachers' Retirement System participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit. Under TRS, the state contributes 7.459 percent of an employee's gross wages. The employee contributes 7.044 percent of his gross wages.

Defined Contribution Plan

The Optional Retirement Plan (ORP), a defined contribution plan, established under the authority of Title 19, chapter 21, MCA, provides benefits at retirement which are dependent upon the amount of contributions, investment gains and losses, employee's life expectancy, and the selected contract option. Under TIAA-CREF, the state contributes 2.956 percent to TIAA and 4.503 percent to TRS. The employee contributes 7.044 percent of his gross wages to TIAA.

The state's policy is to fund accrued pension costs although unfunded liabilities exist. Based on their most recent actuarial valuation reports, both the PERS and the TRS were actuarially sound.

RETIREMENT PLAN INFORMATION AS OF JUNE 30, 1991

	<u>PERS</u>	<u>TRS</u>	<u>ORP</u> (TIAA-CREF)
Covered Payroll	\$490,034	\$ 95,178	\$ 19,954
Total Payroll	616,561	616,561	616,561
Employer Contributions	\$ 31,445	\$ 7,099	\$ 590
Percent of Covered Payroll	6.417%	7.459%	2.956%
Employee Contribution	\$ 30,872	\$ 6,704	\$ 1,406
Percent of Covered Payroll	6.300%	7.044%	7.044%

For ORP participants, a total of \$893 or 4.503 percent was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

3. INVESTMENTS

Investments are units purchased in the State of Montana's Short Term Investment Pool and are reflected at cost which equals market. At June 30, 1991, GSL owned 36,403 units valued at \$100 per unit for a total of \$3,640,300 (including accrued

interest). STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements. At June 30, 1991, most securities (approximately 95 percent) were held by the state or its agent in the state's name. The remaining portion (approximately 5 percent) were loaned under a security lending agreement with the state's agent.

4. DUE FROM FEDERAL GOVERNMENT

The Guaranteed Student Loan Program pays individual lending institutions for any loans that have been defaulted or are unpaid due to the death or permanent disability of the borrower. The GSL program then seeks reimbursement from the Department of Education (D.E.) for payments made to lenders for the death, permanent disability, and default claims. The extent of this outstanding activity is shown below:

Claims due from D.E.	\$1,281,185
Plus ACA 4th quarter (Note 6)	<u>82,336</u>
Total due from Federal Government	<u>\$1,363,521</u>

5. RESTRICTED FUND BALANCE

This fund balance accounts for all interest earnings on the advance received from Department of Education. Program regulations require these interest earnings be maintained for claim payments. Through June 30, 1991 GSL has paid \$195,224 in claims.

6. ADMINISTRATIVE COST ALLOWANCE

The Administrative Cost Allowance revenue is \$548,855 for the fiscal year ended June 30, 1991, including the 4th quarter accrual of \$82,336. This allowance is dependent upon federal appropriation. It represents 1 percent of the loans guaranteed for the year.

7. DUE TO FEDERAL GOVERNMENT

GSL seeks collection of loans that have been defaulted. Upon collection of all or a portion of a defaulted loan, GSL deducts an amount, not to exceed 30 percent of the collected amount, as a collection fee. Since the GSL program previously received payment for the defaulted loan from the Department of Education, the amount of the new loan recovery is owed back to the Department of Education. The extent of this outstanding activity is shown below:

Claims due to D.E.	\$326,621
Reinsurance 4th quarter	<u>20,584</u>
Total Due to Federal Government	<u>\$347,205</u>

8. PRIOR YEAR ADJUSTMENTS

The prior year adjustment of \$1,838 consists of:

Adjustment-FYE90 overaccrual P.O. 464687	\$1,980
Adjustment-prior year expenditures	<u>(142)</u>
	<u>\$1,838</u>

9. DEFERRED REVENUE

Guarantee fees (3 percent of loans disbursed) are deferred and recognized over an eight-year period which approximates the average life of student loans outstanding.

The \$946,941 of earned Guaranteed Revenue for fiscal year 1991 is made up of one-eighth of the guarantee fees received as follows:

<u>Fiscal Year</u>	<u>One-eighth of Fees</u>
1984	\$ 76,767
1985	88,707
1986	99,928
1987	86,646
1988	111,856
1989	135,386
1990	166,654
1991	<u>181,017</u>
	<u>\$946,961</u>

10. DUE TO BANKS

The Guaranteed Student Loan Program operates an escrow disbursement service for approximately 41 lending institutions participating in the student loan program. Weekly, these lenders wire loan proceeds, scheduled to be disbursed the following week, to GSL. GSL prepares State of Montana warrants to disburse the loan proceeds to borrowers.

As of June 30, 1991 GSL had received \$95,982 in funds scheduled to be disbursed in July 1991.

11. FIXED ASSETS

The Guaranteed Student Loan Program is accounted for on the Statewide Budgeting and Accounting System (SBAS) as a special revenue fund. The fixed assets of GSL, which total \$241,051 as of June 30, 1991, are included in the General Fixed Assets Group within the accounting entities of the Office of the Commissioner of Higher Education.

12. COMPENSATED ABSENCES LIABILITY

The liability for compensated absences for the Guaranteed Student Loan Program, which total \$59,008 as of June 30, 1991, is included in the Long Term Debt Group within the accounting entities of the Office of the Commissioner of Higher Education.

Program Response



MONTANA GUARANTEED STUDENT LOAN PROGRAM

35 South Last Chance Gulch • Helena, Montana 59620-3104

(406) 444-6594 FAX (406) 444-7729

Customer Assistance (800) 537-7508

October 16, 1991

16 OCT

Scott A. Seacat
Legislative Auditor
Capitol Station
Helena, MT 59620

Dear Scott:

This letter confirms completion of the Guaranteed Student Loan Program's audit performed by your staff. It is my understanding there were no recommendations.

I want to take this opportunity to thank you and your staff for the fine spirit of cooperation.

Please be assured that the student loan program staff will continue to evaluate and improve this service so the confidence of lenders and educational institutions remain intact. Their confidence is of utmost importance if students are to maintain access to the private capital of the lending community.

Sincerely,

Bill Lannan, Director

BL:bck

